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MEMORANDUM



**DATE:** August 17, 2005

**TO:** Members of the Michigan House of Representatives

**FROM:** Mitchell E. Bean, Director

**RE:** Consensus Revenue Agreement—August 17, 2005

Pursuant to the Management and Budget Act Sections 367(a) through 367(f), the Consensus Revenue Estimating Conference establishes an official economic forecast of major variables of the national and state economies and establishes a forecast of anticipated state General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenues.

The conference principals at the August 2005 meeting were the Director of the House Fiscal Agency, the Director of the Senate Fiscal Agency, and the State Treasurer. The Director of the Senate Fiscal Agency is the 2005 Conference Chairperson.

The attached tables provide a summation of the agreements reached at the August 17 conference. The consensus estimates will be revised or updated at the January 2006 conference.

**Table 1: Consensus Economic Forecast**

Provides estimates of various state and national economic variables. The forecast indicates that real gross domestic product (GDP) will grow by 3.6% in calendar year (CY) 2005 and by 3.0% in CY 2006. Michigan personal income is forecast to grow 4.6% in CY 2005 and by 5.3% in CY 2006.

**Table 2: Consensus Estimates of GF/GP and SAF**

Provides final estimates for FY 2003-04 and revised estimates for FY 2004-05 and FY 2005-06 revenue. Net GF/GP and SAF revenue is estimated to increase \$176.8 million or 1.0% in FY 2004-05 and \$611.8 million or 3.3% in FY 2005-06.

**Table 3: Consensus Estimate—Budget and Economic Stabilization Fund (BSF) Calculation**

Estimated BSF pay-in for FY 2005-06 is \$8.0 million; this pay-in is subject to appropriation. Pay-in and withdrawal from the BSF are based on growth in real adjusted personal income (Management and Budget Act, 1984 PA 431, Section 352).

**Table 4: Consensus Estimate—Constitutional Revenue Limit Calculation**

Reports calculations of the amounts that revenues exceed or do not exceed the constitutional state revenue limit established in Article IX, Section 26 of the Constitution of the State of Michigan. Total state revenue subject to the limit is estimated to be \$5.2 billion below the limit in FY 2004-05 and \$5.1 billion below the limit in FY 2005-06.

**Table 5: Consensus Estimate—School Aid Revenue Adjustment Factor and Pupil Membership Adjustment Factor**

Reports calculations used to determine the FY 2005-06 revenue adjustment factor which is 1.0326, and the pupil membership adjustment factor, which is 1.0023 for FY 2005-06. The revenue adjustment factor is multiplied by the pupil membership adjustment factor to determine the increase in the per pupil foundation allowance, which is 1.0350 or 3.50%.

If you have any questions regarding this information, please do not hesitate to call.

attachments

**Table 1**  
**Consensus Economic Forecast**  
**August 2005**

	<u>Calendar 2003 Actual</u>	<u>Calendar 2004 Actual</u>	<u>% Change from Prior Year</u>	<u>Calendar 2005 Estimated</u>	<u>% Change from Prior Year</u>	<u>Calendar 2006 Estimated</u>	<u>% Change from Prior Year</u>
<b><u>United States</u></b>							
Real Gross Domestic Product (Billions of 2000 dollars)	10,321	10,756	4.2%	\$11,143	3.6%	\$11,477	3.0%
Implicit Price Deflator GDP (2000 = 100)	106.3	109.1	2.6%	112.0	2.7%	115.4	3.0%
Consumer Price Index (1982-84 = 100)	184.0	188.9	2.7%	194.9	3.2%	200.7	3.0%
Personal Consumption Deflator (2000 = 100)	105.5	108.2	2.6%	111.1	2.7%	113.9	2.5%
3-month Treasury Bills Interest Rate (Percent)	1.0%	1.4%		3.2%		4.3%	
Aaa Corporate Bonds Interest Rate (Percent)	5.7%	5.6%		5.6%		6.4%	
Unemployment Rate - Civilian (Percent)	6.0%	5.5%		5.1%		5.1%	
Light Vehicle Sales (Millions of units)	16.6	16.9	1.3%	17.0	0.8%	16.8	-1.2%
Passenger Car Sales (Millions of units)	7.6	7.5	-1.4%	7.7	2.6%	7.6	-1.3%
Light Truck Sales (Millions of units)	9.0	9.4	3.7%	9.3	-0.7%	9.2	-1.1%
Import Share of Light Vehicles (Percent)	19.9%	20.2%		20.2%		21.4%	
<b><u>Michigan</u></b>							
Wage and Salary Employment (Thousands)	4,410	4,391	-0.4%	4,378	-0.3%	4,400	0.5%
Unemployment Rate (Percent)	7.1%	7.1%		7.2%		7.4%	
Personal Income (Millions of current dollars)	314,346	\$322,636	2.6%	\$337,477	4.6%	\$355,364	5.3%
Real Personal Income (Millions of 1982-84 dollars)	172,244	\$173,816	0.9%	\$177,246	2.0%	\$182,051	2.7%
Wages and Salaries (Millions of current dollars)	176,646	\$180,007	1.9%	\$185,407	3.0%	\$193,009	4.1%
Detroit Consumer Price Index (1982-84 = 100)	182.5	185.4	1.6%	190.4	2.7%	195.2	2.5%
Detroit CPI (FY) (1982-84 = 100)	182.0	184.4	1.3%	189.0	2.5%	194.1	2.7%

**Table 2**  
**Revenue Comparison and Consensus Estimates of GF/GP and SAF**  
(Millions of Dollars)  
**August 2005**

	FY 2003-04	FY 2004-05			FY 2005-06		
	<u>Final</u>	<u>August 2005 Consensus</u>	<u>% Change from FY 04</u>	<u>\$\$ Change from FY 04</u>	<u>August 2005 Consensus</u>	<u>% Change from FY 05</u>	<u>\$\$ Change from FY 05</u>
<b>General Fund/General Purpose</b>							
Baseline	\$7,992.6	\$8,260.2	3.35%	\$267.6	\$8,449.1	2.29%	\$188.9
Tax Adjustments	<u>\$49.3</u>	<u>(\$266.2)</u>			<u>(\$236.3)</u>		
<b>Net GF-GP Revenue</b>	<b>\$8,041.8</b>	<b>\$7,994.0</b>	<b>-0.60%</b>	<b>(\$47.8)</b>	<b>\$8,212.9</b>	<b>2.74%</b>	<b>\$218.9</b>
<b>School Aid Fund Revenue</b>							
Baseline	\$10,533.5	\$10,855.4	3.06%	\$321.9	\$11,231.7	3.47%	\$376.3
Tax Adjustments	<u>\$82.0</u>	<u>(\$15.2)</u>			<u>\$1.4</u>		
<b>Net SAF Revenue</b>	<b>\$10,615.5</b>	<b>\$10,840.3</b>	<b>2.12%</b>	<b>\$224.8</b>	<b>\$11,233.1</b>	<b>3.62%</b>	<b>\$392.8</b>
<b>Total GF-GP and SAF</b>							
Baseline	\$18,526.1	\$19,115.6	3.18%	\$589.5	\$19,680.8	2.96%	\$565.2
Tax Adjustments	<u>\$131.3</u>	<u>(\$281.4)</u>			<u>(\$234.9)</u>		
<b>Net GF-GP and SAF</b>	<b>\$18,657.4</b>	<b>\$18,834.2</b>	<b>0.95%</b>	<b>\$176.8</b>	<b>\$19,446.0</b>	<b>3.25%</b>	<b>\$611.8</b>

*House Fiscal Agency*

*August 17, 2005*

*Numbers may not calculate exactly due to rounding.*

**Table 3**  
**FY 2005-06 Consensus Estimate for Budget and Economic Stabilization Fund Calculation**  
(Millions of Dollars)  
**August 2005**

	<u>CY 2004</u>	<u>CY 2005</u>
Michigan Personal Income	\$322,636 (1)	\$337,477 (2)
Less Transfer Payments	\$49,101 (1)	\$51,949 (2)
Income Net of Transfers	\$273,535	\$285,528
Detroit CPI for 12 months ending	1.837 (3) (June 2004)	1.878 (3) (June 2005)
Real Adjusted Michigan Personal Income	\$148,903	\$152,038
Change in Real Adjusted Personal Income		2.1%
Excess over 2%		0.1%
GF-GP Revenue Fiscal Year 2004-05		\$7,994.0

<b>BSF Pay-In Indicated for FY 2005-06</b>	<b>\$8.0</b>
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Notes:

1. Personal Income and Transfer Payments: BEA June 2005.
2. Personal Income and Transfer Payments: Consensus Forecast, August 2005.
3. Detroit Consumer Price Index: Average of six monthly values reported by BLS for each 12-month period.

Calculation done per MCL 18.1352.

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**House Fiscal Agency**  
August 17, 2005

**Table 4**  
**Consensus Estimate**  
**Constitutional Revenue Limit Calculation**  
(Millions of Dollars)  
**August 2005**

	<u>FY 2002</u> <u>Actual</u>	<u>FY 2003</u> <u>Actual</u>	<u>FY 2004</u> <u>Actual</u>	<u>FY 2005</u> <u>Consensus</u> <u>August 2005</u>	<u>FY 2006</u> <u>Consensus</u> <u>August 2005</u>
<b><u>Revenue Subject to Limit</u></b>					
Consensus					
General Fund General Purpose	\$8,280.9	7,911.7	\$8,009.9	\$7,959.0	\$8,177.8
General Fund Revenue Sharing	\$1,571.3	1,589.1	\$1,580.6	\$1,618.3	\$1,675.9
School Aid Fund	\$10,132.9	10,714.9	\$10,615.5	\$10,840.2	\$11,233.1
Transportation	\$2,211.1	2,243.3	\$2,274.1	\$2,216.1	\$2,285.0
Other Restricted Revenue	<u>\$1,349.8</u>	<u>\$1,602.6</u>	<u>\$1,904.7</u>	<u>\$2,019.0</u>	<u>\$2,140.1</u>
<b>Total Revenue Subject to Limit</b>	<b>\$23,546.0</b>	<b>\$24,061.6</b>	<b>\$24,384.7</b>	<b>\$24,652.6</b>	<b>\$25,512.0</b>
<b><u>Revenue Limit</u></b>	<b><u>CY 2000</u></b>	<b><u>CY 2001</u></b>	<b><u>CY 2002</u></b>	<b><u>CY 2003</u></b>	<b><u>CY 2004</u></b>
Personal Income	\$289,390	\$297,609	\$303,745	\$314,460	\$322,636
Ratio	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>	<u>9.49%</u>
Revenue Limit	\$27,463.1	\$28,243.1	\$28,825.4	\$29,842.2	\$30,618.2
1 Percent of Limit	\$274.6	\$282.4	\$288.3	\$298.4	\$306.2
<b>Amount Under (Over) Limit</b>	<b>\$3,917.1</b>	<b>\$4,181.5</b>	<b>\$4,440.7</b>	<b>\$5,189.6</b>	<b>\$5,106.2</b>

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*House Fiscal Agency*  
August 17, 2005

**Table 5**  
**Consensus Estimate**  
**School Aid Revenue Adjustment Factor and Pupil Membership Adjustment Factor**  
**for FY 2005-06**  
**August 2005**

**Revenue Adjustment Factor (Millions of Dollars)**

	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
Baseline SAF Revenue	\$10,533.5	\$10,855.4	\$11,231.7
Balance Sheet Adjustments	\$82.0	(\$15.2)	\$1.4
Net SAF Estimate	\$10,615.5	\$10,840.3	\$11,233.1
Adjustments to FY 2005-06 Base	<u>(\$80.6)</u>	<u>\$16.6</u>	<u>\$0.0</u>
Baseline Revenue on an FY 2005-06 Base	\$10,534.9	\$10,856.8	\$11,233.1
Annual Growth Rate		3.06%	3.47%
<b><u>School Aid Fund Revenue Calculation for FY 2005-06</u></b>			
Sum of FY 2003-04 and FY 2004-05	\$10,534.9	+	\$10,856.8 = \$21,391.8
Sum of FY 2004-05 and FY 2005-06	\$10,856.8	+	\$11,233.1 = \$22,089.9

<b>FY 2005-06 Revenue Adjustment Factor</b>	<b>1.0326</b>
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**Pupil Membership Adjustment Factor**

<b>Consensus Estimate FY 2004-05</b>	1,626,321		Local District Pupils
	+	<u>81,522</u>	Public School Academy Pupils
	1,707,843		
<b>Consensus Estimate FY 2005-06</b>	1,616,300		Local District Pupils
	+	<u>87,700</u>	Public School Academy Pupils
	1,704,000		

**Estimated FY 2005-06 Pupil Membership Adjustment Factor**

$$\begin{array}{rcl}
 \text{FY 2004-05 Pupil Membership} & = & 1,707,843 \\
 & & \textit{divided by} \\
 \text{FY 2005-06 Pupil Membership} & = & 1,704,000
 \end{array}$$

<b>FY 2005-06 Pupil Membership Adjustment Factor</b>	<b>1.0023</b>
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